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ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Commissioner

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September 26, 2008

The Honorable Sylvia Allen
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

Re: Elimination of Arizona Public Service Company's 1000 Feet of "Free Extension"

Dear Senator Allen:

I am in receipt of your August 20, 2008 letter expressing concern regarding the Arizona Corporation Commission's ("ACC") decision which revised Arizona Public Service Company's ("APS") line extension policy and eliminated the 1,000 feet of free line extension. This change was incorporated as part of APS' 2005 rate case proceeding.

In that proceeding, the termination of the allowance was identified as a means to eliminate a \$7 million subsidy for builders that was being shouldered by ratepayers. In removing the allowance, the intention of the Commission was to place a greater portion of the costs of expansion on new growth, rather than on existing APS customers, at a time when utilities have requested numerous rate increases tied to the costs associated with building out their infrastructure to serve new growth.

The decision to change the free footage allowance was not made lightly and was taken in recognition of the potential hardships that could result. In order to try to mitigate the impact of the line extension revision, we required that the new policy not be applied to home builders who had already been provided a quote under the old policy and for those who were already in discussions with APS regarding a line extension. In the proceeding that approved the new line extension policy, I specifically asked that an internal APS appeals process be established and recognized the opportunity for redress that exists for homebuilders and homeowners here at the Commission, should they seek to appeal a line extension decision by APS.

Again, thank you for your letter, and I welcome the opportunity to speak with you on this issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Kris Mayes".

Kris Mayes
Commissioner

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Cc: Chairman Mike Gleason
Commissioner William A. Mundell
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Brian McNeil
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